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NEW APPLICATION

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AZ CORP COMMISSION
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4

5 BEFORE THE ARIZONA CORPORATION COMMISSION

6 IN THE MATTER OF THE APPLICATION OF) W-01445A-01 - 0408
7 ARIZONA WATER COMPANY, AN ARIZONA)
8 CORPORATION, FOR AN ORDER AUTHORIZING) APPLICATION FOR AUTHORITY
9 THE EXECUTION OF A LOAN AGREEMENT) TO EXECUTE LOAN
AND THE DELIVERY OF A PROMISSORY NOTE) AGREEMENT AND DELIVER
IN CONNECTION THEREWITH.) PROMISSORY NOTE

10
11 Arizona Water Company, a public service corporation (hereinafter referred to as the
12 "Company"), respectfully shows as follows:

13 I.

14 The Company is an Arizona corporation owning and operating a water utility business in
15 various municipalities and other areas in Cochise, Coconino, Gila, Maricopa, Navajo, Pima,
16 Pinal and Yavapai Counties in Arizona in accordance with certificates of convenience and
17 necessity heretofore granted by the Arizona Corporation Commission (hereinafter referred to as
18 the "Commission").

19 II.

20 The principal place of business of the Company is 3805 North Black Canyon Highway,
21 Phoenix, Arizona 85015.

22 III.

23 On July 30, 1997, the Company entered into a Business Loan Agreement (the "1997
24 Loan Agreement") with Bank of America Arizona (the "Bank") which established a line of credit
25 in an amount not to exceed Nine Million Dollars (\$9,000,000), which line of credit expired on
26 May 31, 1998. The 1997 Loan Agreement was approved and authorized by the Commission in
27 its Decision No. 60272, entered on July 2, 1997. Beginning on January 18, 1998, with the
28 First Amendment to the 1997 Loan Agreement, the Company and the Bank have entered into

1 several amendments to the 1997 Loan Agreement, each of which is described in previous
2 Company financing applications; the particular details of the First through Sixth amendments are
3 omitted from this Application for brevity's sake.

4 IV.

5 On June 1, 2000, the Company and the Bank entered into the Seventh Amendment to
6 the 1997 Loan Agreement under the conditions of which the terms and provisions of the
7 1997 Loan Agreement remained in full force and effect except for extending the availability
8 period to June 1, 2001. On September 11, 2000, the Company and the Bank entered into the
9 Eighth Amendment which increased the Company's line of credit to an amount not to exceed
10 fourteen million dollars (\$14,000,000), pursuant to the Commission's approval of the Company's
11 application for authority to do so, as approved in Decision No. 62844 on August 24, 2000. This
12 amendment also extended the repayment date to November 30, 2001.

13 V.

14 In Decision No. 62844, adopting a Staff recommendation, the Commission ordered that
15 the Company's next financing be in the form of equity or long-term debt. Accordingly, on
16 April 12, 2001, the Company issued and sold fifteen million dollars (\$15,000,000) of its
17 General Mortgage Bonds, Series K, to Pacific Life & Annuity Company. One of the purposes of
18 the bond issue was to reduce the Company's short-term indebtedness.

19 VI.

20 The Company's short-term indebtedness is incurred for the construction of improvements
21 and additions to the Company's utility plant within the State of Arizona and for the
22 reimbursement of monies actually expended from monies in the Company's treasury for such
23 purposes. As of April 13, 2001, the Company's short-term indebtedness was \$0.00.

24 VII.

25 The Bank is being asked to extend to the Company a line of credit in an amount not to
26 exceed two million dollars (\$2,000,000) which line of credit will expire on May 31, 2002. One of
27 the conditions to the Company's obtaining said line of credit from the Bank is the execution of
28 one or more amendments (the "New Amendments") to the 1997 Loan Agreement between the
Bank and the Company. The New Amendments will keep in effect the terms and conditions of
the 1997 Loan Agreement. A copy of said agreement is attached hereto, marked Exhibit "A"
and by this reference made a part of this Application. The proceeds of the line of credit under the

1 New Amendments will be utilized by the Company for payment for construction of
2 improvements and additions to the Company's utility plant located in the State of Arizona, and
3 for the reimbursement of monies actually expended from monies in the Company's treasury for
4 such purposes and for payment to Utility Investment Company of the short-term indebtedness
5 which may be outstanding on or after the effective date of the New Amendments. The borrowing
6 by the Company from the Bank pursuant to the New Amendments will be evidenced by one or
7 more Promissory Notes, the form of which is attached hereto as Exhibit "B," and by this
8 reference made a part of this Application.

9 VIII.

10 The unpaid principal balance of all advances made under the line of credit provided for in
11 the New Amendments will bear interest during each calendar month at the Bank's Reference
12 Rate minus .25 percentage point or one of two optional interest rates elected by the Company. If
13 one of these optional rates is chosen, it will be equal to or less than the Bank's Reference Rate
14 minus .25 percentage point.

15 IX.

16 The Amendment establishing the \$2,000,000 line of credit extended thereunder shall not
17 become effective until the Commission has approved its execution.

18 X.

19 The Company believes and therefore alleges that it is in the best interests of the Company
20 and its customers that the Commission authorize the Company's execution of New Amendments
21 and the execution of Promissory Notes to be issued in connection therewith, for the reason that
22 the Company must finance to provide for future construction and expansion of its water facilities
23 in order to maintain and continue a high quality of service to its customers.

24 XI.

25 Attached hereto, marked Exhibit "C" and by this reference made a part of this
26 Application, are the Company's financial statements for the twelve months ended December 31,
27 2000.

1 XII.

2 Attached hereto, marked Exhibit "D" and by this reference made a part of this
3 Application, is a certified copy of a resolution adopted by the Board of Directors of the Company
4 on March 27, 2001, authorizing the execution of the New Amendments and the filing of this
5 Application with the Commission.

6 XIII.

7 In Decision No. 62844, the Commission concluded, as a matter of law, that, in
8 consideration of the recommendation of the Staff of the Commission's Utility Division, the
9 application therein could be summarily approved, and in further consideration of the
10 Commission's approval of a virtually identical application in Decision No. 61865, no hearing
11 was necessary in order to approve the Company's application.

12 This Application is likewise virtually identical to the applications referred to in the
13 preceding paragraph. Therefore, the Company submits that no hearing is necessary in this
14 Application and that summary approval by the Commission would be appropriate in this matter.

15 WHEREFORE, the Company prays that the Commission, without a hearing, enter its
16 order:

- 17 1. authorizing the Company to execute and deliver the New Amendments to Bank of
18 America Arizona;
- 19 2. authorizing the Company to execute and deliver to Bank of America Arizona a
20 Promissory Note in the form of the attached Exhibit "B" with the unpaid balance
21 owing thereunder at any time not to exceed two million dollars (\$2,000,000);
- 22 3. authorizing the Company to use the proceeds of the line of credit provided for in the
23 New Amendments for the following purposes:
 - 24 a. Payment and retirement of other short-term indebtedness; and
 - 25 b. Payment for the construction of improvements and additions to the
26 Company's utility plant within the State of Arizona and for the reimbursement of
27 monies actually expended from monies in the Company's treasury for such
28 purposes.

- 1 4. finding that in the opinion of the Commission the money to be borrowed pursuant to
2 the New Amendments is reasonably necessary for the purposes specified in paragraph
3 3 of this prayer and that such purposes are not wholly or in part reasonably chargeable
4 to operating expense or to income; and
5 5. authorizing the Company to do and perform any and all acts and things necessary or
6 appropriate to effectuate, carry out and perform the foregoing.

7 DATED this 14th day of May, 2001.

8 Respectfully submitted,

9
10
11 By: Robert W. Geake
12 Robert W. Geake
13 Post Office Box 29006
14 Phoenix, Arizona 85038-9006
15 Attorney for Arizona Water Company

16 Original and ten (10) copies delivered
17 this 14th day of May, 2001 to:

18 Arizona Corporation Commission
19 Docket Control Division
20 1200 West Washington Street
21 Phoenix, Arizona 85007

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23
24
25
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27
28
Robert W. Geake

BANK OF AMERICA

EXHIBIT "A"

RECEIVED

AUG 1 8 1997

ARIZONA WATER COMPANY
PHOENIX - ACCOUNTING

BUSINESS LOAN AGREEMENT

This Agreement dated as of 7/30/97, is between Bank of American National Trust and Savings Association (the "Bank") and Arizona Water Company, an Arizona public service corporation (the "Borrower").

1. LINE OF CREDIT AMOUNT AND TERMS

1.1 Line of Credit Amount

a. During the availability period described below, the Bank will provide a line of credit to the Borrower. The amount of the line of credit (the "Commitment") is Nine Million Dollars (\$9,000,000).

b. This is a revolving line of credit. The Borrower may repay and reborrow as long as the principal amount outstanding never exceeds the Commitment.

c. The Borrower agrees not to permit the outstanding principal balance of the line of credit to exceed the Commitment.

1.2 Availability Period. The line of credit is available between the date of this Agreement and May 31, 1998 (the "Expiration Date"), unless the Borrower is in default.

1.3 Interest Rate.

a. Unless the Borrower elects an optional interest rate as described below, the interest rate is the Bank's Reference Rate.

b. The Reference Rate is the rate of interest publicly announced from time to time by the Bank in San Francisco, California, as its Reference Rate. The Reference Rate is set by the Bank based on various factors, including the Bank's costs and desired return, general economic conditions and other factors, and is used as a reference point for pricing some loans. The Bank may price loans to its customers at, above, or below the Reference Rate. Any change in the Reference Rate shall take effect at the opening of business on the day specified in the public announcement of a change in the Bank's Reference Rate.

1.4 Repayment Terms.

a. The Borrower will pay interest on August 1, 1997, and then on the first day of each successive month thereafter until payment in full of any principal outstanding under this line of credit.

b. The Borrower will repay in full all principal and any unpaid interest or other charges outstanding under this line of credit no later than the November 30, 1998.

c. Any amount bearing interest at an optional interest rate (as described below) may be repaid at the end of the applicable interest period, which shall be no later than One Hundred Eighty (180) days after the Expiration Date.

1.5 Optional Interest Rate. Instead of the interest rate based on the Bank's Reference Rate, the Borrower may elect to have all or portions of the line of credit (during the availability period) bear interest at the rates described below during an interest period agreed to by the Bank and the Borrower. Each interest rate is a rate per year. Interest will be paid on the last day of each interest period and on the first day of each month during the interest period. At the end of any interest period, the interest rate will revert to the rate based on the Reference Rate, unless the Borrower has designated another optional interest rate for the portion.

1.6 Fixed Rate. The Borrower may elect to have all or portions of the principal balance of the line of credit bear interest at the Fixed Rate, subject to the following requirements:

a. The "Fixed Rate" means the fixed interest rate the Bank and the Borrower agree will apply to the portion during the applicable interest period.

b. The interest period during which the Fixed Rate will be in effect will be no shorter than 30 days and no longer than 180 days.

c. Each Fixed Rate portion will be for an amount not less than Five Hundred Thousand Dollars (\$500,000).

d. The Borrower may not elect a Fixed Rate with respect to any portion of the principal balance of the line of credit which is scheduled to be repaid before the last day of the applicable interest period.

e. Any portion of the principal balance of the line of credit already bearing interest at the Fixed Rate will not be converted to a different rate during its interest period.

f. Each prepayment of a Fixed Rate portion, whether voluntary, by reason of acceleration or otherwise, will be accompanied by the amount of accrued interest on the amount prepaid, and a prepayment fee equal to the amount (if any) by which:

i. the additional interest which would have been payable on the amount prepaid had it not been paid until the last day of the interest period, exceeds.

ii. the interest which would have been recoverable by the Bank by placing the amount prepaid on deposit in the certificate of deposit market for a period starting on the date on which it was prepaid and ending on the last day of the interest period for such portion.

1.7 LIBOR Rate. The Borrower may elect to have all or portions of the principal balance of the line of credit bear interest at the LIBOR Rate plus 1.75 percentage points, subject to the following requirements:

a. The interest period during which the LIBOR Rate will be in effect will be 30, 60, 90 or 180 days. The last day of the interest period will be determined by the Bank using the practices of the London interbank market.

b. Each LIBOR Rate portion will be for an amount not less than Five Hundred Thousand Dollars (\$500,000).

c. The "LIBOR Rate" means the interest rate determined by the following formula, rounded upward to the nearest 1/100 of one percent. (All amounts in the calculation will be determined by the Bank as of the first day of the interest period.)

$$\text{LIBOR Rate} = \frac{\text{London Inter-Bank Offered Rate}}{(1.00 - \text{Reserve Percentage})}$$

Where

i. "London Inter-Bank Offered Rate" means the interest rate (rounded upward to nearest 1/16th of one percent) at which the Bank's London Branch, London, Great Britain, would offer U.S. dollar deposits for the applicable interest period to other major banks in the London inter-bank market at approximately 11:00a.m. London time two (2) London Banking Days before the commencement of the interest period. A "London Banking Day" is a day on which the Bank's London Branch is open for business and dealing in offshore dollars.

ii. "Reserve Percentage" means the total of the maximum reserve percentages for determining the reserves to be maintained by member banks of the Federal Reserve System for Eurocurrency Liabilities, as defined in the Federal Reserve Board Regulation D, rounded upward to the nearest 1/100 of one percent. The percentage will be expressed as a decimal, and will include, but not be limited to, marginal, emergency, supplemental, special, and other reserve percentages.

d. The Borrower shall irrevocably request a LIBOR Rate portion no later than 9:00 a.m. Phoenix time three (3) banking days before the commencement of the interest period.

e. The Borrower may not elect a LIBOR Rate with respect to any portion of the principal balance of the line of credit which is scheduled to be repaid before the last day of the applicable interest period.

f. Any portion of the principal balance of the line of credit already bearing interest at the LIBOR Rate will not be converted to a different rate during its interest period.

g. Each prepayment of a LIBOR Rate portion, whether voluntary, by reason of acceleration or otherwise, will be accompanied by the amount of accrued interest on the amount

prepaid, and a prepayment fee as described below. A "prepayment", for the purposes of this paragraph, is a payment of an amount on a date earlier than the last day of the applicable interest period. The prepayment shall be equal to the amount (if any) by which:

i. the additional interest which would have been payable during the interest period on the amount prepaid had it not been prepaid, exceeds

ii. the interest which would have been recoverable by the Bank by placing the amount prepaid on deposit in the domestic certificate of deposit market, the eurodollar market, or other appropriate money market selected by the Bank, for a period start on the date on which it was prepaid and ending on the last day of the interest period for such portion (or the scheduled payment date for the amount prepaid, if earlier).

h. The Bank will have no obligation to accept an election for an LIBOR Rate portion if any of the following described events has occurred and is continuing:

i. Dollar deposits in the principal amount, and for period equal to the interest period, of a LIBOR Rate portion are not available in the London interbank market;
or

ii. the LIBOR Rate does not accurately reflect the cost of an LIBOR Rate portion.

2. FEES

2.1 Waiver Fee. If, at Borrower's request, the Bank, at its discretion, agrees to waive or amend any terms of this Agreement, then the Bank may charge Borrower a fee of up to Two Thousand Five Hundred and no/100 Dollars (\$2,500.00) for each waiver or amendment. Nothing in this paragraph shall imply that the Bank is obligated to agree to any waiver or amendment requested by the Borrower. The Bank may impose additional requirements as a condition to any waiver or amendment.

3. DISBURSEMENTS, PAYMENTS AND COSTS

3.1 Requests for Credit. Each request for an extension of credit will be made in writing in a manner acceptable to the Bank, or by another means acceptable to the Bank.

3.2 Disbursements and Payments. Each disbursement by the Bank and each payment by the Borrower will be:

- a. made at the Bank's branch (or other location) selected by the Bank from time to time;
- b. made for the account of the Bank's branch selected by the Bank from time to time;
- c. made in immediately available funds, or such other type of funds selected by the Bank;

d. evidenced by records kept by the Bank. In addition, the Bank may, at its discretion, require the Borrower to sign one or more promissory note.

3.3 Direct Debit.

a. The Borrower agrees that interest will be deducted automatically on the due date from checking account number 001-168104.

b. The Bank will debit the account on the dates the interest payments become due. If a due date does not fall on a banking day, the Bank will debit the account on the first banking day following the due date.

c. The Borrower will maintain sufficient funds in the account on the dates the Bank enters debits authorized by this Agreement. If there are insufficient funds in the account on the date the Bank enters any debit authorized by this Agreement, the debit will be reversed.

3.4 Banking Days. Unless otherwise provided in this Agreement, a banking day is a day other than a Saturday or a Sunday on which the Bank is open for business in Arizona and banks are open for business in California. For amounts bearing interest at a LIBOR Rate (if any), a banking day is a day other than a Saturday or a Sunday on which the Bank is open for business in California and dealing in offshore dollars. All payments and disbursements which would be due on a day which is not a banking day will be due on the next banking day. All payments received on a day which is not a banking day will be applied to the credit on the next banking day.

3.5 Interest Calculation. Except as otherwise stated in this agreement, all interest and fees, if any, will be computed on the basis on a 360-day year and the actual number of days elapsed. This results in more interest or a higher fee than if a 365-day year is used.

3.6 Interest on Late Payments. At the Bank's sole option in each instance, any amount not paid when due under this Agreement (including interest) shall bear interest from the due date at the Bank's Reference Rate. This may result in compounding of interest.

4. CONDITIONS

The Bank must receive the following items, in form and content acceptable to the Bank, before it is required to extend any credit to the Borrower under this Agreement:

4.1 Authorizations. Corporate or other authorizations for the Borrower.

4.2. A certified copy of any order of the Arizona Corporation Commission approving the execution of this Agreement by the Borrower, the obtaining of loans provided for herein by the Borrower, and the purposes of which the proceeds of the loans provided for herein are utilized by the Borrower.

4.3 Any other items that the Bank reasonably requests.

5. REPRESENTATIONS AND WARRANTIES

When the Borrower signs this Agreement, and until the Bank is repaid in full, the Borrower makes the following representations and warranties. Each request for an extension of credit constitutes renewed representations and warranties:

5.1 Organization of Borrower. The Borrower is a public service corporation duly formed and existing under the laws of the state where organized.

5.2 Authorization. This Agreement, and any instrument or agreement required hereunder, are within the Borrower's powers, have been duly authorized, and do not conflict with any of its organizational papers.

5.3 Enforceable Agreement. This Agreement is a legal, valid and binding agreement of the Borrower, enforceable against the Borrower in accordance with its terms, and any instrument or agreement required hereunder, when executed and delivered, will be similarly legal, valid, binding and enforceable.

5.4 Good Standing. In each state in which the Borrower does business, it is properly licensed, in good standing, and, where required, in compliance with fictitious name statutes.

5.5 No Conflicts. This Agreement does not conflict with any law, agreement, or obligation by which the Borrower is bound.

5.6 Financial Information. All financial and other information that has been or will be supplied to the Bank is:

- a. sufficiently complete to give the Bank accurate knowledge of the Borrower's financial condition.
- b. in form and content required by the Bank.
- c. in compliance with all government regulations that apply.

5.7 Lawsuits. There is no lawsuit, tax claim or other dispute pending or threatened against the Borrower which, if lost, would have a material adverse effect on the Borrower's financial condition or ability to repay the loan, except as have been disclosed in writing to the Bank prior to the date of this Agreement.

5.8 Permits, Franchises. The Borrower possesses all permits, memberships, franchises, contracts and licenses required and all trademark rights, trade name rights, patent rights and fictitious name rights necessary to enable it to conduct the business in which it is now engaged without conflict with the rights of others.

5.9 Other Obligations. The Borrower is not in default on any obligation for borrowed money, any purchase money obligation or any other material lease, commitment, contract, instrument or obligation.

5.10 Income Tax Returns. The Borrower has no knowledge of any pending assessments or adjustments of its income tax for any year, except as have been disclosed in writing to the Bank.

5.11 Other Lien. It is the Borrower's intent and practice not to create, assume or allow security interests or liens on accounts receivable and inventory owned by the Borrower. The Borrower will notify the Bank if the Borrower changes this practice.

5.12 No Event of Default. There is no event which is, or with notice or lapse of time or both would be, a default under this Agreement.

5.13 Location of Borrower. The Borrower's place of business (or, if the Borrower has more than one place of business, its chief executive office) is located at the address listed under the Borrower's signature on this Agreement.

6. COVENANTS

The Borrower agrees, until the Bank is repaid in full:

6.1 Use of Proceeds. To use the proceeds of the credit for general business purposes and in accordance with the Arizona Corporation Commission Order governing this agreement.

6.2 Financial Information. To provide the following financial information and statements and such additional financial information as requested by the Bank from time to time:

a. Within 120 days of the Borrower's fiscal year end, the Borrower's annual financial statements. These financial statements must be audited (with an unqualified opinion) by a Certified Public Accountant ("CPA") acceptable to the Bank.

b. Within 35 days of the end of each quarterly accounting period, the Borrower's interim financial statements, including balance sheet, income statement and statement of cash flows. These financial statements may be Borrower prepared.

c. Within 120 days of Borrower's fiscal year end, the Borrower's annual budgets, including construction, operating summary and cash forecast schedules.

6.3 Other Debts. Not to have outstanding or incur other debts or become liable for the debts of others without the Bank's prior written consent. This does not prohibit:

a. Acquiring goods, supplies or merchandise on normal trade credit.

b. Endorsing negotiable instruments received in the usual course of business.

- c. The execution of surety bonds in the usual course of business.
- d. Debts and lines of credit in existence on the date of this Agreement disclosed in writing to the Bank.
- e. New debts that would not cause a material adverse change in the Borrower's financial condition or ability to repay the line of credit.
- f. Existing and new intercompany debts made in the usual course of business.

6.4 Notices to the Bank. To promptly notify the Bank in writing of:

- a. Any lawsuit against the Borrower, which if lost would cause a material adverse change in the Borrower's financial condition or operations.
- b. Any dispute between the Borrower and any government authority, which would cause a material adverse change in the Borrower's financial condition or operations.
- c. Any failure to comply with this Agreement.
- d. Any material adverse change in the Borrower's financial condition or operations.
- e. Any address change.

6.5 Books and Records. To maintain adequate books and records.

6.6 Audits. To allow the Bank and its agents to inspect the Borrower's properties and examine, audit and make copies of books and records at any reasonable time at the Bank's expense. If any of the Borrower's properties, books or records are in the possession of a third party, the Borrower authorizes that third party to permit the Bank or its agents to have access to perform inspections or audits.

6.7 Exchange of Information. To allow the Bank to exchange financial information about the Borrower with BankAmerica Corporation affiliates and other related entities.

6.8 Compliance with Laws. To comply with the law (including any fictitious name statute), regulations and orders of any government body with authority over the borrower's business.

6.9 Preservation of Rights. To maintain and preserve all rights, privileges, and franchises the Borrower now has, which are necessary to its business as a public service corporation.

6.10 Maintenance of Properties. To make any repairs, renewals or replacements to keep the Borrower's properties in good working condition.

6.11 Cooperation. To take any action requested that the Borrower and the Bank reasonably agree is necessary to carry out the intent of this Agreement.

6.12 General Business Insurance. To maintain insurance as is usual for the business it is in.

6.13 Additional Negative Covenants. Not to, without the Bank's written consent:

- a. Engage in any business activities substantially different from the Borrower's present business, such that Borrower's primary operation would be different than its present operations.
- b. Liquidate or dissolve the Borrower's business.
- c. Enter into any consolidation, merger or other reorganization in which the Borrower is not the surviving entity.
- d. Lease or dispose of all or a substantial part of the Borrower's business or the Borrower's assets.
- e. Acquire or purchase a business or its assets such that the Borrower's primary operations would be different than its present operations.

7. DEFAULTS

If any of the following events occur, the Bank may do one or more of the following: declare the Borrower in default, stop making any additional credit available to the Borrower, and require the Borrower to repay its entire debt immediately and without prior notice. If an event of default occurs under the paragraph entitled "Bankruptcy" below with respect to Borrower, the entire debt outstanding under this Agreement will automatically be due immediately.

7.1 Failure to Pay. The Borrower fails to make a payment under this Agreement when due.

7.2 Noncompliance. The Borrower fails to meet the conditions of, or fails to perform any material obligation under:

- a. This Agreement.
- b. Any other agreement made in connection with this loan, or
- c. Any other agreement the Borrower has with the Bank or any affiliate of the Bank.

7.3 False Information. The Borrower has given the Bank false or misleading information or representations.

7.4 Bankruptcy. The Borrower files a bankruptcy petition, a bankruptcy petition is filed against the Borrower, or the Borrower makes a general assignment for the benefit of creditors.

7.5 Receivers. A receiver or similar official is appointed for the Borrower's business, or the business is terminated.

7.6 Material Adverse Change. A material adverse change occurs in the Borrower's financial condition, properties or prospects, or ability to repay the extensions of credit under this Agreement.

7.7 Cross-default. Any default occurs under any agreement to borrow money in connection with any credit the Borrower has obtained from anyone else or which the Borrower has guaranteed if the default consists of failing to make a payment when due or gives the other lender the right to accelerate the obligation.

8. ENFORCING THIS AGREEMENT; MISCELLANEOUS

8.1 GAAP. Except as provided by the Uniform System of Accounts of the National Association of Regulatory Utility Commissioners, and other accounting requirements and as otherwise stated in this Agreement, all financial information provided to the Bank and all financial covenants will be made under generally accepted accounting principles, consistently applied.

8.2 Arizona Law. This Agreement is governed by Arizona law.

8.3 Successors and Assigns. This Agreement is binding on the Borrower's and the Bank's successors and assigns. The Borrower agrees that it may not assign this Agreement without the Bank's prior consent. The Bank may sell participations in or assign this loan, and may exchange financial information about the Borrower with others in connection therewith, provided that such actual or potential participants or assignees shall agree to treat all financial information exchanged as confidential. If a participation is sold or the loan is assigned, the purchaser will have the right of set-off against the Borrower, but only to the extent that Bank is entitled to exercise any such right of set-off under this Agreement.

8.4 Arbitration.

a. This paragraph concerns the resolution of controversies or claims between the Borrower and the Bank, that arise from:

i. this Agreement (including any renewals, extensions or modifications of this Agreement);

ii. any document, agreement or procedure related to or delivered in connection with this Agreement; or

iii. any violation of this Agreement.

iv. any claims for damages resulting from any business conducted between the Borrower and the Bank, including claims for injury to persons, property or business interests (torts).

b. At the request of the Borrower or the Bank, any such controversies or claims will be settled by arbitration in accordance with the United State arbitration Act. The United States Arbitration Act will apply even though this Agreement provides that it is governed by Arizona law.

c. Arbitration proceedings will be administered by the American Arbitration Association and will be subject to its commercial rules of arbitration.

d. For purposes of the application of the statute of limitations, the filing of an arbitration pursuant to this paragraph is the equivalent of the filing of a lawsuit, and any claim or controversy which may be arbitrated under this paragraph is subject to any applicable statute of limitations. The arbitrator will have the authority to decide whether any such claim or controversy is barred by the statute of limitations and, if so, to dismiss the arbitrate on that basis.

e. If there is a dispute as to whether an issue is arbitrable, the arbitrators will have the authority to resolve any such dispute.

f. The decision that results from an arbitration proceeding may be submitted to any authorized court of law to be reviewed, modified or confirmed and enforced.

g. This provision does not limit the right of the Borrower or the Bank to

i. exercise self-help remedies such as setoff;

ii. foreclose against or sell any real or personal property collateral; or

iii. act in a court of law, before, during or after the arbitration proceeding to obtain;

(a) an interim remedy; and/or

(b) additional or supplementary remedies.

h. The pursuit of or a successful action for interim, additional or supplementary remedies, or the filing of a court action, does not constitute a waiver of the right of the Borrower or the Bank, including the suing party, to submit the controversy or claim to arbitration if the other party contests the lawsuit.

8.5 Severability: Waivers. If any part of this Agreement is not enforceable, the rest of the Agreement may be enforced. The Bank retains all rights, even if it makes a loan after default. If the Bank waives a default, it may enforce a later default. Any consent or waiver under this Agreement must be in writing.

8.6 Attorneys' Fees. In the event of a lawsuit or arbitration proceeding, the prevailing party is entitled to recover costs and reasonable attorneys' fees (including any allocated costs of in-

house counsel) incurred in connection with the lawsuit or arbitration proceeding, as determined by the court or arbitrator (and not by a jury).

8.7 One Agreement. This Agreement and any related security or other agreements required by this Agreement, collectively:

- a. Represent the sum of the understandings and agreements between the Bank and the Borrower concerning this loan; and
- b. Replace any prior oral or written agreements between the Bank and the Borrower concerning this loan; and
- c. Are intended by the Bank and the Borrower as the final, complete and exclusive statement of the terms agreed to by them.

In the event of any conflict between this Agreement and any other agreements required by this Agreement, this Agreement will prevail.

8.8 Usury Laws. This paragraph covers the transactions described in this Agreement and any other agreements with the Bank or its affiliates executed in connection with this Agreement, to the extent they are subject to the Arizona usury laws (the "Transactions"). The Borrower understands and believes that the Transactions comply with the Arizona usury laws. However, if any interest or other charges paid or payable in connection with the Transactions are ever determined to exceed the maximum amount permitted by law, the Borrower agrees that:

(a) the amount of interest or other charges payable by the Borrower pursuant to the Transactions shall be reduced to the maximum permitted by law; and

(b) any excess amount previously collected from the Borrower in connection with the Transactions which exceeded the maximum amount permitted by law will be credited against the then outstanding principal balance. If the outstanding principal balance has been repaid in full, the excess amount paid will be refunded to the Borrower.

All fees, charges, goods, things in action or any other sums or things of value, other than interest at the interest rate described in the Agreement, paid or payable by the Borrower (collectively the "Additional Sums"), that may be deemed to be interest with respect to the Transactions, shall, for the purpose of any laws of the State of Arizona that may limit the maximum amount of interest to be charged with respect to the Transactions, be payable by Borrower as, and shall be deemed to be, additional interest. For such purposes only, the agreed upon and "contracted rate of interest" of the Transactions shall be deemed to be increased by the rate of interest resulting from the Additional Sums.

8.9 Notices. All notices required under this Agreement shall be personally delivered or sent by first class mail, postage prepaid, to the addresses on the signature page of this Agreement, or to such other addresses as the Bank and the borrower may specify from time to time in writing.

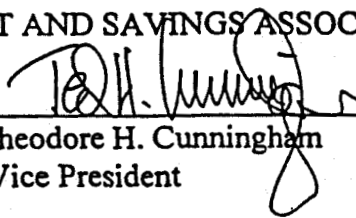
8.10 Headings. Article and paragraph headings are for reference only and shall not affect the interpretation or meaning of any provisions of this Agreement.

8.11 Prior Agreement Superseded. This Agreement supersedes the Business Loan Agreement entered into as of May 28, 1993 between the Bank of the Borrower, as such agreement has been amended from time to time prior to the date hereof, and any credit outstanding thereunder shall be deemed to be outstanding under this Agreement.

This Agreement is executed as of the date stated at the top of the first page.

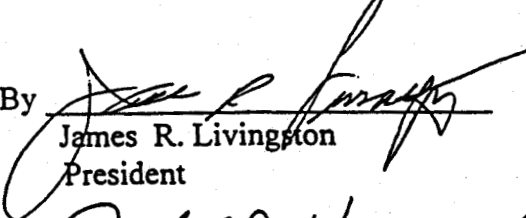
BANK OF AMERICA NATIONAL
TRUST AND SAVINGS ASSOCIATION

By

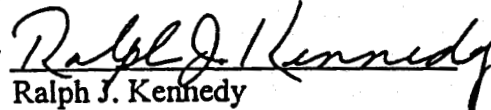

Theodore H. Cunningham
Vice President

ARIZONA WATER COMPANY

By


James R. Livingston
President

By


Ralph J. Kennedy
Vice President & Treasurer

Address where notices to the Bank
are to be sent:

Phoenix Commercial Banking, # 8211
101 North First Avenue
Phoenix, Arizona 85003

Address where notices to the Borrower
are to be sent:

If by courier:
3805 North Black Canyon Highway
Phoenix, Arizona 85038

If by U.S. Postal service:
P.O. Box 29006
Phoenix, Arizona 85038-9006

RECEIVED

AUG 11 1997

EXHIBIT B



Master Note: Reference Rate Related

1 Individual
Corporation

2 Partnership
Association

Loan Number

33

6.

7

1. **FOR VALUE RECEIVED** the undersigned, hereinafter referred to as "Borrower", promises to pay to the order of the United States of America, to the order of Bank of America Arizona ("Bank") on demand, or if no demand is made, then on 9th at Bank's 6 in 7, the sum which becomes due and payable by Bank from time to time to or for the benefit of or in the request of Borrower from and after the date of this Note through 10, together with interest thereon at the time and at the rate specified in this Note. No advance shall be made under this Note if, as a result of such advance, the total principal amount 11 under this Note would exceed 12 Dollars (\$5). All advances and all payments made on account of principal shall be recorded from time to time by the holder of this Note on the reverse side of this Note or on an additional detachable. Each such record of any advance hereunder shall be conclusive evidence that the advance was made by Bank to Borrower.
 2. Each advance under this Note shall bear interest from the date of such advance until payment in full at a rate per year equal to 14 percent (15 %) of the sum of the rate of interest currently announced from time to time by Bank of America National Trust and Savings Association ("BoNA California") in San Francisco, California, as its reference rate, plus 16 (17) percentage points (15 % (Reference rate plus 17 percentage points)) (the "Loan Rate"). (The reference rate is set based on various factors, including BoNA California's costs and desired return, general economic conditions and other factors, and is used as a reference point for pricing some loans. The Bank may price loans to its customers at, above, or below the reference rate. Any change in the reference rate shall take effect at the opening of business on the day specified in the public announcement of a change in the reference rate.) Interest shall be computed on the basis of:
 - 30 a three hundred sixty-five (365) day year and actual days elapsed.
 - 360 a three hundred sixty (360) day year and actual days elapsed, which results in more interest than if a three hundred sixty-five (365) day year were used.
- Any change in the interest rate of this Note shall take effect at the opening of business on the day specified in the public announcement of a change in the reference rate. Interest shall be payable on 22, on the 23 day of each successive 24 thereafter, and upon payment in full of principal of this Note.
1. Borrower agrees to pay an effective consideration for rate of interest equal to the rate of interest remaining from all interest payments as provided in this Note plus the additional rate of interest remaining from all Other Funds. The Other Funds shall consist of all fees, charges, goods, things in action or any other sums or things of value (other than interest payments as provided in this Note) paid or payable by Borrower, whether pursuant to this Note, any security agreement, lease of land or other document or instrument in any way pertaining to this loan, that may be deemed to be interest for the purpose of any law of the State of Arizona that may limit the maximum amount of interest to be charged with respect to this loan. The Other Funds shall be deemed to be interest for the purposes of any such law only.
 4. Each advance under this Note shall be made in such manner as Bank and Borrower may agree in writing.
 5. This Note is made under and pursuant to the terms of a loan agreement between Bank and Borrower dated 22.
 6. The occurrence of any of the following events shall terminate any obligation of Bank to make advances under this Note and, at the option of the holder of this Note, shall make all sums of interest and principal of this Note immediately due and payable without notice of default, demand or demand for payment, protest or notice of nonpayment or default, or other notice or demand of any kind or character:
 - (a) Default in the payment when due of any installment of interest;
 - (b) Nonpayment by Borrower of any debt when due whether as original obligor, guarantor or endorser;
 - (c) Borrower's failure to comply with any term of the loan agreement described in paragraph 5;
 - (d) Death, insolvency, termination of business, commission of an act of bankruptcy, general assignment for the benefit of creditors, filing of any petition in bankruptcy or for relief under the provisions of the national bankruptcy act, or any other law or laws for the relief of or relating to debtors of, or against Borrower or any Borrower, surety or guarantor of the indebtedness evidenced by this Note, or any endorser of this Note;
 - (e) Appointment of a receiver or trustee in law or commission of any property of Borrower or any Borrower, surety or guarantor of the indebtedness evidenced by this Note, or any endorser of this Note;
 - (f) Appointment of an involuntary lien or liens of any kind or character, to the assets or property of Borrower or any Borrower, surety or guarantor of the indebtedness evidenced by this Note, or any endorser of this Note.

If suit is commenced to enforce payment of this Note, Borrower agrees to pay the additional sums as attorney's fees as the court may designate reasonable.

The obligations of the undersigned under this Note, if there are more than one signing this Note as Borrower, are joint and several.

2. Except where prohibited by the laws of the United States, this Note shall be governed by the laws of the State of Arizona. Wherever possible, each provision of this Note shall be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Note shall be prohibited or invalid under such law, such provision shall be ineffective to the extent of such prohibition or invalidity, without invalidating the remainder of such provision or the remaining provisions of this Note.

IN WITNESS WHEREOF, the undersigned has caused this note to be executed by its officers who have duly authorized and directed by a resolution of its Board of Directors duly passed and adopted by a majority of said Board at a meeting thereof, duly called, noticed, and held.

32.

X _____
31

X _____
33

X _____
26

X _____
27

X _____
28

Telephone #: 30
Mailing Address:
33
34

EXHIBIT C

ARIZONA WATER COMPANY Comparative Balance Sheet at December 31, 2000

ASSETS

	Dec. 31, 2000	Dec. 31, 1999	Increase (Decrease)
UTILITY PLANT			
Gross Utility Plant	\$ 167,705,111	\$ 151,905,839	\$ 15,799,272
Less Accumulated Depreciation	39,806,593	36,432,629	3,373,964
Net Utility Plant	127,898,518	115,473,210	12,425,308
CURRENT ASSETS			
Cash on Hand and in Banks	465,047	244,318	220,729
Investments and Special Deposits	3,111	3,111	0
Accounts Receivable	2,308,749	2,678,168	(368,419)
Materials and Supplies	250,437	295,776	(45,339)
Other	447,194	202,386	244,808
Total Current Assets	3,475,538	3,423,759	51,779
DEFERRED DEBITS			
	4,386,196	3,826,864	559,332
TOTAL	\$ 135,760,252	\$ 122,723,833	\$ 13,036,419

LIABILITIES

CAPITALIZATION			
Common Stock	\$ 2,700,000	\$ 2,700,000	\$ 0
Capital Surplus	2,654,647	2,654,647	0
Retained Earnings	42,582,502	39,490,837	3,091,665
Common Stock Equity			
Long-Term Debt	47,937,149	44,845,484	3,091,665
	9,142,535	9,604,303	(461,768)
Total Capitalization	57,079,684	54,449,787	2,629,897
CURRENT LIABILITIES			
Notes Payable	13,400,000	11,250,000	2,150,000
Accounts Payable	2,583,042	2,142,180	440,862
Accrued Expenses	1,007,536	1,303,381	(295,845)
Other	345,581	285,389	60,192
Total Current Liabilities	17,336,159	14,980,950	2,355,209
DEFERRED CREDITS			
Advances for Construction	29,295,512	23,374,722	5,920,790
Contributions in Aid of Construction	18,124,450	17,268,144	856,306
Deferred Income Tax	10,239,756	9,779,803	459,953
Other	3,684,691	2,870,427	814,264
Total Deferred Credits	61,344,409	53,293,096	8,051,313
TOTAL	\$ 135,760,252	\$ 122,723,833	\$ 13,036,419

DECEMBER 2000

EXHIBIT C

ARIZONA WATER COMPANY Comparative Statement of Income December 31, 2000

	12 MONTHS TO DATE		DECEMBER		12 Months to Date	
	2000	1999	2000	1999	2000	1999
OPERATING REVENUE	\$ 32,411,346	\$ 29,749,822	\$ 2,261,972	\$ 2,503,186	\$ 32,411,346	\$ 29,749,822
OPERATING EXPENSES						
Operation and Maintenance	14,406,660	13,303,916	1,224,258	1,164,477	14,406,660	13,303,916
Depreciation	3,504,370	3,173,272	269,845	322,144	3,504,370	3,173,272
Taxes Other Than Income Taxes	4,757,748	4,463,030	357,528	352,527	4,757,748	4,463,030
Income Taxes	2,682,630	2,580,727	(216,795)	7,377	2,682,630	2,580,727
Total Operating Expenses	25,351,408	23,520,945	1,634,836	1,846,525	25,351,408	23,520,945
OPERATING INCOME	7,059,938	6,228,877	627,136	656,661	7,059,938	6,228,877
OTHER (INCOME) AND DEDUCTIONS						
Other (Income) - Net	(90,101)	(94,299)	(124,644)	(14,127)	(90,101)	(94,299)
Interest on Long-Term Debt	862,157	904,860	70,009	73,566	862,157	904,860
Other Interest and Amortization	482,717	300,887	54,559	31,059	482,717	300,887
Total Other (Income) and Deductions	1,254,773	1,111,448	(76)	90,498	1,254,773	1,111,448
NET INCOME	5,805,165	5,117,429	\$ 627,212	\$ 566,163	\$ 5,805,165	\$ 5,117,429
Regular Common Dividends	2,713,500	2,664,900				
Special Common Dividend	0	2,000,700				
INCOME RETAINED	\$ 3,091,665	\$ 451,829				
Active Services	61,632	59,090				

DECEMBER 2000

EXHIBIT D

ARIZONA WATER COMPANY

CERTIFICATE OF RESOLUTION

ROBERT W. GEAKE does by these presents certify that he is the Secretary of Arizona Water Company, an Arizona corporation (hereinafter sometimes referred to as the "Company"); that as such he is familiar with the records and files of the Company; that on March 27, 2001, at the annual organization meeting of the Board of Directors of the Company, the following resolution was adopted:

"RESOLVED: That the Company may borrow from Bank of America Arizona or a comparable financial institution or Utility Investment Company when and as needed, from June 1, 2001 through May 31, 2002, an amount not to exceed in the aggregate of \$2,000,000 outstanding at any one time, exclusive of interest and charges, and that any two of the Chairman of the Board, the President, any Vice President, the Treasurer, the Secretary, or any one of the above and any Assistant Secretary or any Assistant Treasurer be, and they hereby are, authorized from time to time on behalf of the Company to agree to the terms and conditions of such borrowings and to execute notes, loan agreements, other necessary documents and extension or renewals thereof as may be required to evidence such borrowings; and

"BE IT FURTHER RESOLVED: That all prior actions of the officers of the Company in borrowing money from or in incurring other obligations to Bank of America Arizona or Utility Investment Company and the execution of any and all instruments and agreements by them are hereby ratified, confirmed and approved; and

"BE IT FURTHER RESOLVED: That Bank of America Arizona and/or such other comparable financial institution selected by the officers of the Company and/or Utility Investment Company may rely upon these resolutions and the certificates of the officers given in connection therewith until written notice of other action of the Board of Directors of the Company is served upon Bank of America Arizona and/or such other comparable financial institution selected by the officers of the Company and/or Utility Investment Company and until all indebtedness and obligations of the Company to Bank of America Arizona and/or such other comparable financial institution selected by the officers of the Company and/or Utility Investment Company are paid and satisfied; and

"BE IT FURTHER RESOLVED: That the Chairman of the Board, the President, any Vice President, the Treasurer, the Secretary, an Assistant Secretary or an Assistant Treasurer are hereby authorized to sign any and all documents, instruments and applications to the Arizona Corporation Commission, or otherwise, or other instructions necessary to complete such borrowings."

The foregoing resolution is in full force and effect and has not been revoked.

IN WITNESS WHEREOF, the said Robert W. Geake has executed this certificate this
27th day of April 2001.

Robert W. Geake
Secretary